

Message Text

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TO SECSTATE WASHDC 6650
INFO AMEMBASSY PARIS
AMCONSUL CALGARY
AMCONSUL HALIFAX
AMCONSUL MONTREAL
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PARIS FOR USOECD

DEPT. PASS CEA, TREAS, FRB

E.O. 11652:N/A
TAGS: ECON, EFIN, CA
SUBJECT: CANADIAN BALANCE OF PAYMENTS IN FOURTH QUARTER AND
1977

REF: (A) OTTAWA 1192 (B) CERP 0102

1. SUMMARY. 1977 CANADIAN CURRENT ACCOUNT DEFICIT WAS
CDOLS 4.2 BILLION, VIRTUALLY UNCHANGED FROM 1976, ALTHOUGH
DEFICIT EXPRESSED IN U.S. DOLLARS HAS CONTINUED TO IMPROVE
SINCE 1975. DETERIORATION OF SERVICES BALANCE IN 1977
SWAMPED CDOLS 1.8 BILLION POSITIVE SWING IN TRADE SURPLUS.
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HIGHER NET INTEREST AND DIVIDEND PAYMENTS AT NEARLY CDOLS
ONE BILLION PLAYED LEADING ROLE IN WORSENING OF SERVICES
BALANCE. NET LONG AND SHORT TERM CAPITAL INFLOWS DECLINED
BY CDOLS 1.9 BILLION TO CDOLS 2.8 BILLION IN 1977 LARGELY
DUE TO DOLS 3.3 BILLION FALL FROM HIGH 1976 LEVELS IN NEW
CANADIAN SECURITIES ISSUES ABROAD. DIRECT INVESTMENT
SHOWED CDOLS 380 MILLION NET OUTFLOW AFTER 850 MILLION

NET OUTFLOW IN 1976. OFFICIAL RESERVES FELL BY DOLS 1.4 BILLION.

2. FOURTH QUARTER CURRENT ACCOUNT DEFICIT NARROWED TO CDOLS 692 MILLION FROM CDOLS 1.2 BILLION IN PREVIOUS QUARTER. TRADE SURPLUS IMPROVED SUBSTANTIALLY AND TRAVEL DEFICIT EASED, BUT DEFICIT ON INTEREST AND DIVIDEND PAYMENTS INCREASED SHARPLY. NEW ISSUES ABROAD OF CANADIAN SECURITIES DECLINED BY CDOLS 800 MILLION TO CDOLS 1.1 BILLION IN FOURTH QUARTER AND WERE AT LOWEST QUARTERLY LEVEL SINCE THIRD QUARTER OF 1975. DIRECT INVESTMENT CONTINUED NET OUTFLOW. OFFICIAL RESERVES DECLINED BY DOLS 291 MILLION. END SUMMARY.

3. MERCHANDISE TRADE BALANCE. SEASONALLY ADJUSTED MERCHANDISE TRADE BALANCE IMPROVED SUBSTANTIALLY IN FOURTH QUARTER, REGISTERING SURPLUS OF CDOLS 1.2 BILLION COMPARED WITH CDOLS 626 MILLION THIRD QUARTER SURPLUS. MERCHANDISE EXPORTS ROSE AT 23 PERCENT ANNUAL RATE AND TOTALLED CDOLS 11.8 BILLION, WHILE IMPORTS ADVANCED AT ANNUAL RATE OF ONLY 1 PERCENT AND STOOD AT CDOLS 10.6 BILLION. FOR 1977 AS A WHOLE, MERCHANDISE EXPORTS WERE UP 17.4 PERCENT TO CDOLS 52.3 BILLION; IMPORTS INCREASED 13 PERCENT TO CDOLS 41.7 BILLION. (FOR DETAILS OF PRICE AND VOLUME MOVEMENTS IN EXPORTS AND IMPORTS SEE REFTEL.) TRADE SURPLUS INCREASED BY CDOLS 1.8 BILLION FROM 1976 LEVEL TO CDOLS 2.9 UNCLASSIFIED

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BILLION IN 1977. MAIN FACTORS GENERATING IMPROVEMENT IN TRADE BALANCE IN 1977 WERE SLOW GROWTH OF CANADIAN GNP RELATIVE TO THAT OF U.S. AND TO DEPRECIATION OF CANADIAN DOLLAR.

4. BALANCE ON SERVICES AND CURRENT ACCOUNT. DEFICIT ON SERVICES NARROWED SLIGHTLY TO CDOLS 1.9 BILLION IN FOURTH QUARTER FROM CDOLS 2.0 BILLION THIRD QUARTER DEFICIT. NET INTEREST AND DIVIDEND PAYMENTS ABROAD ROSE BY CDOLS 105 MILLION TO CDOLS 958 MILLION, WHILE TRAVEL DEFICIT DECLINED FROM CDOLS 472 MILLION TO CDOLS 370 MILLION. FOR YEAR 1977, TRAVEL DEFICIT WIDENED BY CDOLS 464 MILLION TO CDOLS 1.7 BILLION AND DEFICIT ON INTEREST AND DIVIDEND PAYMENTS INCREASED BY CDOLS 922 MILLION TO CDOLS 3.4 BILLION. SHARP RISE IN 1977 NET INTEREST AND DIVIDEND PAYMENTS ABROAD DUE TO HEAVY LONG TERM FOREIGN BORROWING IN 1976 AND DEPRECIATION OF CANADIAN DOLLAR WHICH INCREASED COST IN TERMS OF CANADIAN DOLLARS OF SERVICING STOCK OF DEBT DENOMINATED IN FOREIGN CURRENCY (PRIMARILY U.S. DOLLARS).

5. DETERIORATION OF CDOLS 1.7 BILLION IN SERVICES BALANCE IN 1977 NEARLY MATCHED CDOLS 1.8 BILLION IMPROVEMENT IN

TRADE SURPLUS WITH RESULT THAT DEFICIT ON GOODS AND SERVICES, AT CDOLS 4.6 BILLION, WAS LITTLE CHANGED FROM CDOLS 4.7 BILLION DEFICIT RECORDED IN 1976. POSITIVE BALANCE ON NET TRANSFERS WAS CDOLS 372 MILLION, DOWN SLIGHTLY FROM CDOLS 522 MILLION IN 1976 BRINGING 1977 CURRENT ACCOUNT DEFICIT TO CDOLS 4.2 BILLION.

6. CANADIAN CURRENT ACCOUNT DEFICITS IN U.S. DOLLARS WERE 4,698 MILLION, 4,246 MILLION, AND 3,985 MILLION IN 1975, 1976, AND 1977 RESPECTIVELY (BASED ON CANADIAN DOLLAR AVERAGE DAILY NOON EXCHANGE RATE IN U.S. DOLLARS OF .9830, 1.0141, AND .9403 IN 1975-77 RESPECTIVELY).

7. CAPITAL ACCOUNT: FOURTH QUARTER. NET CAPITAL INFLOWS UNCLASSIFIED

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IN FOURTH QUARTER WERE CDOLS 443 MILLION, UP FROM NET

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INFLOWS OF CDOLS 212 MILLION IN THIRD QUARTER. NET MOVEMENT WAS INFLUENCED BY:

(A) CDOLS 800 DECLINE TO CDOLS 1.1 BILLION NEW FOREIGN SECURITY ISSUES. NEW SECURITY ISSUES ABROAD IN FOURTH QUARTER WERE LOWEST SINCE THIRD QUARTER 1975 AND REFLECTED LOWER OVERALL BORROWING REQUIREMENTS AND NARROWING OF INTEREST RATE DIFFERENTIAL BETWEEN DOMESTIC AND FOREIGN MARKETS;

(B) SMALL RISE TO CDOLS 221 IN NET INFLOW OF SHORT TERM FUNDS INTO MONEY MARKET DUE TO WIDENING, IN FAVOR OF CANADA, OF "HEDGED" SHORT TERM INTEREST RATE SPREAD VIS A VIS U.S.;

(C) CDOLS 1.1 BILLION NET OUTFLOW OF "OTHER" SHORT TERM CAPITAL (I.E., ERRORS AND OMISSIONS). SINCE HEDGED TRANSLATIONS UNCLASSIFIED

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ACTIONS SHOWED NET CAPITAL INFLOW, OUTFLOW OF "OTHER" SHORT TERM CAPITAL PROBABLY REFLECTS UNHEDGED, SPECULATIVE MOVEMENTS RELATED TO EXPECTATION OF FURTHER CANADIAN DOLLAR DEPRECIATION; AND

(D) NET DIRECT INVESTMENT OUTFLOW OF CDOLS 180 MILLION, AS CANADIAN INVESTMENT ABROAD (CDOLS 240 MILLION) EXCEEDED FOREIGN INVESTMENT IN CANADA (CDOLS 60 MILLION).

8. CAPITAL ACCOUNT: 1977. FOR YEAR 1977, CAPITAL ACCOUNT REGISTERED NET INFLOW OF CDOLS 2.8 BILLION, DOWN CONSIDERABLY FROM CDOLS 4.7 BILLION NET INFLOW RECORDED IN 1976.

9. LONG TERM CAPITAL TRANSACTIONS. LONG TERM CAPITAL MOVEMENTS PRODUCED NET INFLOW OF CDOLS 4.3 BILLION, COMPARED WITH CDOLS 7.9 BILLION NET INFLOW IN 1976. REDUCTION IN NET INFLOW OF LONG TERM CAPITAL BETWEEN 1976 AND 1977 LARGELY ATTRIBUTABLE TO CDOLS 3.3 BILLION DECLINE (TO CDOLS 5.8 BILLION) IN GROSS NEW ISSUES ABROAD OF CANADIAN SECURITIES. FOREIGN DIRECT INVESTMENT IN CANADA IN 1977 ROSE BY CDOLS 410 MILLION, REVERSING CDOLS 295 MILLION DECLINE IN 1976. HOWEVER, CANADIAN INVESTMENT ABROAD ROSE 40 PERCENT FROM 1976 TO CDOLS 790 MILLION, WITH RESULT THAT NET DIRECT INVESTMENT IN 1977 WAS OUTFLOW OF CDOLS 380 MILLION, DOWN FROM 850 MILLION NET OUTFLOW IN 1976. EXPANSION OF EXPORT CREDITS FROM CDOLS 263 TO CDOLS 532 BETWEEN 1976 AND 1977 CONTRIBUTED TO NARROWING OF CAPITAL ACCOUNT SURPLUS.

10. SHORT TERM CAPITAL MOVEMENTS. NET OUTFLOW OF SHORT TERM CAPITAL IN 1977 WAS CDOLS 1.5 BILLION, A POSITIVE SWING OF CDOLS 1.6 BILLION FROM NET OUTFLOW OF

CDOLS 3.2 BILLION IN 1976. FOREIGN CURRENCY OPERATIONS OF
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CANADIAN CHARTERED BANKS WERE DOMINANT INFLUENCE IN
POSITIVE MOVEMENT. THESE OPERATIONS GENERATED SHORT
TERM CAPITAL INFLOWS OF CDOLS 1.4 BILLION IN 1977, COMPARED
WITH NET OUTFLOWS OF ALMOST CDOLS 1.0 BILLION IN 1976,
A POSITIVE SHIFT OF ABOUT CDOLS 2.3 BILLION. AT CDOLS
422 MILLION, INFLOWS INTO CANADIAN MONEY MARKET WERE
STILL POSITIVE, BUT DOWN SHARPLY FROM CDOLS 1.2 BILLION
INFLOW RECORDED IN 1976. U.S. PURCHASES OF GOC TREASURY
BILLS AND OF FINANCE AND "OTHER" SHORT TERM MONEY MARKET
INVESTMENT ROSE FROM 1976 LEVELS REFLECTING WIDENING OF
COVERED INTEREST DIFFERENTIAL IN FAVOR OF CANADA.
HOWEVER, U.S. PURCHASES OF CANADIAN COMMERCIAL PAPER
UNDERWENT NEGATIVE SHIFT OF CDOLS 407 MILLION, POSSIBLY
DUE TO HEIGHTENED LENDING RISK (REFLECTED IN INCREASING
BANKRUPTCIES) IN SLOW-GROWING CANADIAN ECONOMY.

11. NET CAPITAL INFLOW OF CDOLS 2.8 BILLION IN 1977 WAS
INSUFFICIENT TO FINANCE CDOLS 4.2 BILLION CURRENT ACCOUNT
DEFICIT AND OFFICIAL INTERNATIONAL RESERVES DECLINED BY
CDOLS 1.4 BILLION. CANADIAN DOLLAR DECLINED BY 7.8
PERCENT ON AVERAGE AGAINST U.S. DOLLAR IN 1977 AND BY
WEIGHTED AVERAGE OF 9.4 PERCENT AGAINST CURRENCIES OF
CANADA'S MAJOR TRADING PARTNERS.

12. TABLE. BALANCE OF PAYMENTS; FOURTH QUARTER AND YEAR
1977. BRACKETS () INDICATE DECREASE. MILLIONS OF
CANADIAN DOLLARS.

A. CURRENT ACCOUNT BALANCE, FOURTH QUARTER AND YEAR,
SEASONALLY ADJUSTED.

-----1977IV-----1977

MERCHANDISE TRADE BALANCE-----1,154-----2,907

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INFO AMEMBASSY PARIS

AMCONSUL CALGARY

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SERVICES------(753)------(7,517)

OF WHICH:

-TRAVEL------(370)------(1,655)

-INTEREST AND DIVIDENDS------(958)------(3,413)

GOODS AND SERVICES------(753)------(4,610)

CURRENT ACCOUNT BALANCE------(692)------(4,238)

B. CAPITAL ACCOUNT BALANCE, FOURTH QUARTER AND YEAR,
NOT SEASONALLY ADJUSTED

-----1977IV-----1977

LONG TERM CAPITAL-----441-----4,346

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OF WHICH:

-DIRECT INVESTMENT------(180)------(380)

-PORTFOLIO-----1,059-----5,333

OF WHICH:

-GROSS NEW SECURITY ISSUES---1,107-----5,778

SHORT TERM CAPITAL-----2------(1,529)

TOTAL NET CAPITAL-----443-----2,817

C. RECAP

CURRENT ACCOUNT BALANCE

(NOT SEASONALLY ADJUSTED)------(734)------(4,238)

CAPITAL ACCOUNT BALANCE-----443-----2,817
(NOT SEASONALLY ADJUSTED)

CHANGE IN RESERVES------(291)------(1,421)
ENDERS

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Message Attributes

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